

Norway's PPP contract off the beaten track

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Norway's upcoming road PPP programme is kicking off with the Rv3/Rv25 Ommangsvollen – Grundset/Basthjørnet project, for which three bidding consortia were [shortlisted](#) in June 2017.

However, sources in the wider European project finance sector have noted that Norway's PPP contract does not resemble the UK's PFI model, which over the years has been successfully exported to a number of other countries, or any other recognisable model previously implemented in the European market.

Instead, Norway is using its own version of a PPP contract.

One major difference between other PPP contracts is that it is very prescriptive about the project's design, sources say. This means there is little room for differentiation on project costs between bidders. One of the advantages of PPPs is that they typically enable developers to lower project costs by innovating on their design specifications, said one London-based source. However, this is not the case for the RV3/RV25.

Reduced long-term finance

Under the contract for the RV3/RV25, 50% of the construction cost is to be paid by government at completion, which means that the ability for bidders to achieve differentials on financial costs is also diminished.

The higher milestone payments and reduced dependence on long-term debt mean the Norwegian road PPPs will be less appealing to the European bank sector than they would have been otherwise, a banking source believes.

He also pointed to the relatively limited volume of financing expected to come from commercial banks as a factor that dampens banking excitement for the deal, considering that the European Investment Bank and the Nordic Investment Bank (NIB) will most probably provide the lion's share of the necessary debt.

And the required amount of debt is also limited by a Nkr2.7 billion (\$341 million) contribution expected from the Norwegian government, which will be paid back when the project is complete.

So commercial banks only expect to provide around €20-€25 million of the estimated Nkr4 billion cost of the scheme.

And this means the only variable is equity return, noted the other source. "Whoever is willing to earn least money on it will win."

As a result, a number of market participants are urging the Norwegian authorities to bring their PPP contract closer in line with a more recognisable model.

The provision for half of construction costs to be paid at construction completion was introduced as a result of criticisms

that Norway's previous PPP deals featured excessively high financing costs, particularly given the government's deep pockets, explained EY's tax partner Bjørgun Jønsberg.

Norway's only previous road PPPs – the [E18 Grimstad-Kristiansand](#) motorway, the [E39 Lyngdal-Flekkefjord road](#), and the [E39 Klett-Bardshaug](#) road highway – all reached financial close between 2003 and 2006. They featured availability payments spread out across concession periods but no significant lump sum payment at construction completion.

RV3/RV25

The RV3/RV25 is located in the east of the country, and is intended to improve freight transport between Oslo and Trondheim. It is also expected to create a united residential and labour market spanning the areas of Hamar and Elverum.

Construction is expected to start in 2018, with the road due to open for traffic in 2020-2021.

The consortia shortlisted for the scheme are:

- Skanska
- Strabag/Acciona
- Veidekke/Sundt

Indicative bids due by 10 November 2017.

Advisers are:

For the Norwegian road authority (Statens Vegvesen):

- PwC – Financial adviser

For Skanska:

- Operis – Financial adviser
- Wiersholm – Legal adviser

For Strabag/Acciona:

- Credit Agricole – Financial adviser
- Herbert Smith Freehills – Legal adviser

Meanwhile, the Veidekke/Sundt consortium is thought to be advised by Norway's DnB Bank.

Further PPP projects to come

The relative simplicity and moderate value of the RV3/RV25 project means the constraints placed by the PPP contract may not be an issue.

However, it may be more important to bring the contract closer in line with European standards once procurement starts for the second expected road PPP in the new wave of projects.

The RV555 Sotrasambandet in Hordaland County is larger, with an estimated project cost of around Nkr9.3 billion. It will also include a number of bridges across waterways in the intricately crenelated coastline of the southwest of the country, and will be built on densely populated portions of territory.

The project's greater complexity means more flexibility in design specifications is expected for this project and possibly others to follow it. After all, the PPP programme is still fairly new, even considering the three roads in 2003-2006.

Projects expected to come after the RV3/Rv25 include:

- RV555 Sotrasamlandet in Hordaland County
- E10/RV85 Tjeldsund – Gullesfjordbotn in Nordland and Troms County
- E16 Oppheim – Skulestadmoen in Hordaland County
- E134 Haukelitunnelene in Telemark and Hordaland County
- E6 Sørfoldtunnelene in Nordland County
- E6 Åsen–Steinkjer in Trøndelag County
- E6 Megården–Mørsvikbotn in Nordland County

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